THE AMERICAN JOBS CRISIS AND ITS IMPLICATION FOR THE FUTURE OF EMPLOYMENT POLICY: A CALL FOR A NEW JOBS COMPACT

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The author proposes a new Jobs Compact to close the nation’s jobs deficit, to create sufficient high-quality jobs to raise wages and end thirty years of wage stagnation, and to update and strengthen labor and employment policies. A set of market and institutional failures are identified as root causes of these problems, and local innovations and policy proposals are suggested for overcoming them. Achieving these objectives will require a stronger voice in national policymaking as well as proactive efforts to mobilize and coordinate the constituencies that share an interest in and responsibility for employment policy and practice. The author calls on the president and the secretary of labor to lead these efforts by mobilizing and engaging business, labor, women, ethnic, community, and education leaders at regional and national levels.

America continues to suffer from the worst jobs crisis since the Great Depression. The crisis has both a quantity and a quality dimension. With respect to quantity, three and a half years after the end of the recession the economy has 3.6 million fewer jobs than before the downturn began and will need another 18 million new jobs by the end of the decade to make up this difference and to absorb growth in the labor force. The quality dimension is a much longer-run phenomenon: Wages have been stagnant and income inequality has been increasing while health insurance, pension coverage, and job satisfaction have been declining since the 1980s. These longer-run trends signify a breakdown in the social contract at work.

These facts alone should be sufficient to stimulate concrete actions focused on accelerating the growth of high-quality jobs. When combined with the recognition that even prior to the recession U.S. labor and employment policies had not kept up with changes in the economy, workforce, and

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nature of work, one would think a shared commitment to act would be even stronger. Instead, the thirty-year stalemate in labor policy (dating back to the failed 1978 labor law reforms) has now escalated into an acute polarization and spread from the private sector to also engulf state and local governments, employees, and their unions. Labor and employment policy remain a backwater in economic policymaking, in part because of the political impasse but also because no national leader has made a strong case for a thorough update and overhaul of employment policies.

The good news is that numerous local-level innovations in private practice and proposals for new public policies have occurred that could lay a foundation for a new national employment policy (Osterman, Kochan, Locke, and Piore 2001). Building on these local innovations in shaping a new national policy would be consistent with historical patterns; the New Deal legislation of the 1930s largely was based on prior local and state-level innovations in unemployment insurance, minimum wages and related regulations, and collective bargaining in industries such as garments and coal mining (Fraser and Gerstle 1989).

This article follows this tradition by bringing these innovations and various policy proposals together to outline a new national employment strategy. I use the term strategy to convey the need for new substantive policies as well as leadership that can support changes in employment practices. I propose a new Jobs Compact with a singular focus on creating sufficient new, high-quality jobs by the end of this decade to close the jobs deficit and to restore income growth. This will require active and sustained engagement of regional and national leaders from industry, labor, education, and government. The proposed strategy takes both a regional and an experimental and learning approach to address the causes of the immediate jobs crisis and the longer-run breakdown in the social contract. Related policy and institutional failures are also addressed.

The Jobs Crisis

The Jobs Deficit

The economy has experienced a slower recovery from the steep job losses experienced in the Great Recession of 2007–09 than any previous recession since 1980. In January 2013, the economy still needed 3.6 million jobs to get back to the level that existed just prior to the start of the recession and another 5.2 million jobs to account for the growth in the labor force over this time period (Greenstone and Looney 2013; Shierholz 2013). A deficit this large cannot be closed overnight. Indeed, even with the more aggressive initiatives I propose later in this article, I believe it will take the rest of the decade to do so. This estimate of the jobs deficit and the Bureau of Labor Statistics projected labor force growth of 8.9 million between 2013 and 2020 (Toosi 2012) indicates a need for approximately 18 million jobs or an
average of 214,000 per month over this seven-year time period. Continuing the average monthly job growth of 150,000 experienced over the past two years would leave the economy with a shortfall of nearly 5 million jobs at the end of this decade. Alternatively, closing the jobs deficit by the end of the second Obama Administration would require average growth of more than 300,000 jobs, a target that appears well beyond reach. Thus, without more direct actions to generate job growth, the nation is likely to experience a jobs deficit that will last well into the next decade, along with the attendant economic and social costs of persistent unemployment.

**Job Quality**

Figure 1 uses the breakdown in the social contract since the 1980s to illustrate the long-term problem with job quality. I and others have used the term *social contract* to describe the expectation that wages for average workers will grow in rough tandem with aggregate productivity growth in the U.S. economy (Kochan 2000). From 1947 to 1979 productivity and real

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wages both grew in tandem by approximately 2 to 3% per year. Between 1980 and 2011 productivity grew 86%, family income grew by 12% due largely to the increased hours of paid work contributed by wives and mothers, and real hourly wages grew by only 7%. Table 1 shows that things have become worse since 2000; real wages have declined in this past decade for all but those with either advanced professional or PhD degrees and others in the top tier of the wage distribution (Haskel et al. 2012). The combined effects of these trends have generated the greatest income inequality in the economy since 1928 (Atkinson, Piketty, and Saez 2009). These wage trends were accompanied by declines in other measures of job quality. Employer-provided health care coverage declined from 70% at its peak in 2000 to 59% in 2010 (Fronskin 2011); defined benefit pension plan coverage in the private sector declined from just 38% in 1979 to 15% in 2008 (Employee Benefit Research Institute 2013), and the Conference Board’s national job satisfaction survey reported employees satisfied with their jobs declined from 62% in 1987 to 48% in 2010 (Franco 2010).

### Root Causes

Most labor market research focuses on identifying and quantifying the effects of specific causal forces such as changes in skills and technologies, on global trade, or on declines in institutions such as unions or investments in education or training on a specific labor market outcome. That is highly appropriate for furthering knowledge and for policymaking. It is also necessary, however, to look more deeply into the root causes of the failure to prioritize work and employment considerations in public and private decision making that give rise to and perpetuate the combination of labor market outcomes noted above. Indeed, I believe identifiable market and institutional failures explain why these issues are not elevated to a higher level in business and in political decision making.

### Market Failure: Individual Firms and National Interests

The essence of the market failure problem is that what is good for individual U.S. companies is no longer automatically good for American business,
workers, or the economy. Former IBM executive and Sloan Foundation President Ralph Gomory (2010) put it this way:

[Government leaders] do not realize that the corporate goal of profit maximization at all costs does not serve the interests of the nation. They do not realize that the fundamental goals of the country and of our companies have diverged. The sole focus on profit maximization, which leads to offshoring and holds down wages, does not serve the nation. . . . We must act to realign the goals of company and country. (emphasis in the original)

Yet what is good for the overall American business community is in many ways good for the economy. Despite the globalization of markets, U.S. multinational firms continue to derive 60% of their sales from U.S. markets (Bureau of Economic Affairs 2011). These and other firms that continue to rely on the U.S. market for a significant portion of their sales need, among other things, stronger and more sustained consumer purchasing power and product demand, a workforce with the education and mix of technical and behavioral skills needed to fill current and future vacancies, and a regulatory environment that encourages and rewards employers for upgrading employment practices while ensuring that no firm can gain a cost advantage by violating or minimizing employment standards. All of these goals lie beyond the reach of individual firms but could be attainable if businesses work together and with the other key stakeholders that share power and responsibilities for these issues.

Overcoming market failures requires coordination and cooperation—a sharing of responsibilities—among the parties involved. That is why future employment policy must give priority to regional and industry-level cooperation among business leaders and across the business, education, labor, government, and other civil society institutions that share interests in and responsibilities for workforce preparation and utilization (Kochan, Finegold, and Osterman 2012).

**Rise of Financial Capitalism**

Why did the 1980s appear to be the time when the social contract began to break down? A growing number of researchers believe the answer is that a form of financial capitalism arose in those years that changed the priorities and balance of power within the majority of U.S. corporations. The 1980s witnessed major innovations in capital markets and a fundamental revision of accepted views of the nature and purpose of public corporations. This was accompanied by deregulation of financial institutions and significant increases in the level of debt deemed acceptable in American firms. The increased use of junk bonds, hostile takeovers, and leveraged buyouts; the breakup of large firms; and the new view of corporations as bundles of tradable assets that could be reconfigured or restructured to maximize short-term financial returns ushered in an era of financial capitalism. Power within corporations shifted from executives responsible for production, human resources, and labor relations to finance. Top executives now serve
as agents of increasingly demanding financial markets (Davis 2009; Lazonick 2009; Jacoby 2011). The era of rapid escalation in CEO income began as stock options and other incentives linked to share price became the driving factors in their compensation packages. Advances in financial engineering attracted increasing proportions of investments and more of the best technical talent from business schools (and other university majors with strong mathematical training) into the financial sector, absorbing a higher proportion of national income and compensation (Blair 2010; Tomaskovic-Devey and Lin 2011). These interrelated trends led to stronger pressures for short-term returns but also increased risks in known and, as it turned out, unknown or unanticipated ways. The net effect was to weaken the voices of those favoring a more balanced view of the corporation as a public entity with responsibilities not only to shareholders but to other stakeholder groups as well. Recent evidence shows, for example, that layoffs have come faster and deeper at firms that were most heavily scrutinized by stock market analysts that had tightly linked CEO compensation to share price and that were among the first to put CFOs in powerful management positions (Jung 2011).


Throughout much of the 20th century, labor unions and collective bargaining served as a critical institutional force and forum for generating and sustaining a social contract that supported a gradual improvement in economic conditions for the majority of the American workforce and that provided voice to worker interests in political affairs at local, state, and national levels, and in multiple civic and labor-management consultative groups. Union membership in the private sector reached a peak of about one-third of the workforce in the mid-1950s and declined steadily since then to reach its present level of 6.6% of private sector workers and 11.3% overall.

In contrast, worker interest in joining unions has increased over these years. Nationally representative surveys in the 1970s found that 30% of non-union workers would join a union if given the chance (Kochan 1979) compared with around 50% at the end of the 1990s (Freeman 2007). The nation’s outdated and failed labor law, however, makes it nearly impossible for workers to form a union and to gain access to collective bargaining in the face of employer opposition (Weiler 1990; Commission on the Future of Worker Management Relations 1994; Ferguson 2008; Estlund 2010). An employer that is determined to avoid unionization through legal or illegal means has a 90% likelihood of being successful, even once a majority of workers sign a statement indicating they want union representation (Ferguson 2008). Among firms that have no union presence and no active union organizing drives, the threat effects of unions and collective bargaining is almost, if not totally, nonexistent.
By the mid-1980s union coverage declined sufficiently so that unions could no longer rely on strike threats as a source of bargaining power or use pattern bargaining to spread wage increases beyond their specific bargaining units. Innovative labor management partnerships that were competitive with the best of nonunion models emerged in a number of industries, but without the labor law reforms needed to support and endorse them these partnerships failed to diffuse broadly enough to become the new norm (Kochan, Katz, and McKersie 1986). It became easier for firms to avoid unions than to engage them in transforming relationships and work practices. The threat effects of unions on new operations evaporated, and the pressure to match union wages and benefits eroded. Collective bargaining has never recovered its pre-1980s momentum. Recent evidence suggests that union decline accounts for approximately one-third of the increase in income inequality experienced since the 1980s (Western and Rosenfeld 2011).

Labor–management dialogue has been another casualty of union decline as most of the national and local forums that brought labor and business leaders together to discuss economic and social problems have disbanded (e.g., the National Policy Association, the Collective Bargaining Forum, and area-wide Labor Management Committees), have only token labor representation (e.g., President Obama’s Jobs and Competitiveness Council), or have been ineffective in forwarding labor’s agenda (e.g., the Competitiveness Council and Vice President Biden’s Middle Class Task Force). The lack of a union presence, or significant threat of union organizing, has reduced or in many cases largely eliminated the motivation of business leaders to participate in joint discussions of national or local problems.

The decline in labor’s power and presence in society is mirrored in the decline of exposure to labor and human resource management in the curricula of business schools, law schools, and other professional programs that educate the current and future generations of managers and industry leaders. Labor relations is rarely taught, and human resource management has been relegated to an elective in all but a few leading business schools.

Taken together, the decline in union membership, collective bargaining, social dialogue, and education of current and future managers have produced an institutional vacuum—workers’ voice in economic affairs is weaker today than at any point since prior to the passage of the New Deal legislation.

The Seeds of an Alternative Strategy: Local Innovations

High Road Business Strategies and Work Systems

Not all American firms chose to be dominated by these financial market pressures. Despite growing international competition and changes in technologies, some firms in nearly every industry have sought to remain competitive by staying on the cutting edge of technology, innovation, product development, and service quality by adopting what are commonly called
“high road” or “high performance” work system strategies (Appelbaum and Batt 1994; Cutcher-Gershenfeld, Nitta, Barrett et al. 1998). While the specific practices needed to achieve high performance vary across industries, the generic features include careful selection for employees with both strong technical and behavioral-social (problem solving and teamwork) skills, significant investment in training and development, involvement of employees at the workplace, compensation systems that allow workers to share in the gains these practices generate and that align employee and firm interests, and labor management partnerships in settings where employees are represented by a union and/or professional association. Two decades of research on these high road work systems and union management partnerships has documented their ability to achieve world-class productivity and service quality in industries as diverse as steel, autos, airlines, telecommunications, apparel, health care, computers, and semiconductors (Appelbaum, Gittell, and Leana 2011). More recent case studies are now documenting the same patterns of success in smaller firms across manufacturing, retail, and health care establishments (Hitachi Foundation 2011).

This “high road” strategy is so critical because compared with strategies that seek to minimize labor costs and that focus on short-term returns, the “high road” is better able to achieve the twin objectives of building and sustaining strong competitive companies that generate consistent returns to shareholders and supporting high and rising wages and living standards for employees. Even in organizations in which employment security is uncertain and longevity of shorter duration, these work systems build and help maintain current employees’ human capital, thereby providing a rich stock of human capital for American industry to draw on when hiring.

The problem is these practices and systems are not diffusing widely across American industries (Osterman 1994), and their prevalence may have declined somewhat in the past decade (Benson and Lawler 2011). The reasons for limited diffusion are not well understood. Explanations (really hypotheses) offered for limited diffusion range from lack of information about these practices and how to implement/manage them, high start-up costs and delayed benefits that come with these (and any other) investments (sometimes called “worse before better” traps), failure to eliminate the “low road” option of competing by holding labor costs as low as possible, failure to reform and modernize labor law to encourage and support these strategies and human resource/labor practices, to the pressures from financial market agents for maximizing short-term returns.

**Regional Education and Training Partnerships**

A good deal of innovation is also underway among education and training providers in selected regions that seeks to overcome the disincentives for an individual firm to invest in education and training of its current or future workforce. The most successful examples of training programs embody one or more of the following attributes: 1) strong employer-education linkages/
cooperation in the design, funding, and enrollment/employment of graduates; 2) work-based learning that allows students to apply their new knowledge and skills at their workplace; 3) career pathways that support worker movement from entry level jobs; and 4) multi-employer consortia sometimes in partnership with local unions (Kochan, Finegold, and Osterman 2012). Community colleges often serve as the institutional anchor for delivering these educational and training programs, particularly for “middle skill” occupations, that is, those requiring technical education and training beyond high school level. Some four-year universities also have programs that embody these attributes through co-ops, internships, and industry-education partnerships. Union management joint training programs through traditional apprenticeships or other jointly funded and administered training programs serve as another model for building skills that are then tied to increased wage rates and income levels for graduates. Together these local-level education and training initiatives serve as building blocks for a national human capital development strategy that, if diffused broadly, could fill the skills gaps reported by employers, help close the jobs deficit, and increase wages and family incomes. The challenge lies in moving from best-case examples to a scale large enough to have a macroeconomic impact.

**Overcoming the Barriers: A Jobs Compact**

With an understanding of the reasons the qualitative and quantitative dimensions of the jobs crisis persist, and recognition that a proven base of innovation on which to build exists, I believe identifying a path forward is now possible. Specifically, I outline a Jobs Compact that, if implemented and sustained for the rest of this decade, would close the jobs deficit, put wage growth back on a positive upward trend, and begin the process of updating and modernizing the broad range of policies and regulations governing work. I use the term “Jobs Compact” because putting this effort in place will require a new level of coordination and collaboration among business, labor, education, government, and other groups that share interest and responsibilities for workforce development and employment policies and practices.

Given their adversarial histories, the odds are low that the key stakeholder groups will initiate a dialogue on their own that is capable of overcoming these barriers. Yet a number of business and labor leaders appear ready and willing to begin a dialogue. Specifically, on November 29, 2011, the Harvard Business School brought together leaders of business, labor, and the academic communities to discuss actions needed for firms operating in the United States to be competitive and to contribute to high and rising living standards.2 One of the promising results of the discussion was a shared sense

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2The March 2012 issue of the *Harvard Business Review* contains summaries of the papers discussed at this meeting.
of urgency on the need to address the nation’s jobs crisis. Participants called for direct actions to encourage investments needed to generate new high-quality jobs and to strengthen the ability of their firms to compete in the United States, rebuild apprenticeships, and expand and improve links between industry and community colleges and four-year universities. I propose we build on the momentum generated at that meeting and work with leaders of these stakeholder groups at the national and regional level to generate the 18 million new, high-quality, jobs needed by 2020 to get the nation back to the level of employment that existed prior to the 2007–09 recession. Below I outline an initial set of options that, if taken together, I believe would achieve this goal.

**Accelerating Job Growth**

Two different but not necessarily mutually exclusive analytical arguments have been put forward for why the jobs deficit persists. The first, and clearly the dominant, factor is insufficient demand in the economy, and firms that have chosen to accumulate large cash reserves rather than invest in product and job expansion (Krugman 2012; Rothstein 2012). Addressing this category of problems calls for some mix of increased government and private sector investment targeted at either direct job creation and/or investments in research and development, plant and equipment, and/or infrastructure that are known to have strong employment multipliers. Addressing the insufficient demand and investment problem is a necessary condition for closing the current jobs deficit.

The second, and more contested, argument is that a supply side problem exists—employers report shortages of workers with critical skills needed to expand their businesses (Manyika, Lund, Auguste et al. 2011). This argument is contested for two reasons. First, it is often seen as part of a broader set of “structural” explanations for the persistence of high unemployment (e.g., unemployed workers are unwilling to accept jobs that are available) that have little empirical support (Rothstein 2012). Second, competitive markets experiencing shortages should respond by raising prices (wages), but no evidence supports this is happening (Cappelli 2012; Osterman 2012; Rothstein 2012).

While I agree with these critics, I take a different approach here by proposing strategies for overcoming the market and institutional failures that currently hold back individual employers, education providers, and job seekers from investing in education and training needed to fill current stated shortages or those predicted to occur in the near future as the baby boom generation reaches retirement age (Neumark, Johnson, and Mejia 2011). By targeting these efforts to local regions, occupations, and industries where employers are convinced they are experiencing shortages and where employers are willing to commit to expand hiring of newly skilled employees, these supply-side strategies can both contribute to improving the quality of jobs and to closing the jobs deficit. Thus, I see the education
and training strategies as targeted complements to, rather than substitutes for, other demand-expanding investment strategies.

State and Local Government Employment

The revenue losses caused by the Great Recession in many states have produced a steady decline in local and state government employment. Since 2008 nearly 700,000 jobs have been eliminated in local and state governments. Teacher jobs and education budgets have been especially hard hit. Based on Pollin and Garrett-Peltier’s (2011) estimates, an investment of $50 billion over the next eight years would recapture more than the 700,000 public sector jobs lost since the recession.3

Infrastructure Investments

One of the most widely discussed options for stimulating and sustaining demand for American jobs and for strengthening long-term competitiveness is to address the nation’s deteriorating infrastructure. The American Society of Civil Engineers estimates that America has a $2.2 trillion backlog of investments that haven’t been made but that are needed to repair the nation’s infrastructure. Others have estimated significant positive economic returns and employment multipliers from such investments (Tyson 2011). Based on Tyson’s estimates, investment of $100 billion would generate approximately 2 million jobs. Thus, an investment of $30 billion per year through the rest of this decade would produce 4 million new jobs and close more than 20% of the jobs deficit.

Most of the proposals for an infrastructure initiative call for a mixture of private and public capital to serve as the initial source of funds. If, as appears to be the case, Congress is unwilling to act on its own, the private sector could take the lead in raising the necessary capital. The labor movement announced in 2011 that it is prepared to commit up to $10 billion in pension funds to an infrastructure initiative. Given their special interest in reducing uncertainty, Wall Street firms could be called on to build a substantially larger pool of funds. Then business and labor could jointly propose the government further leverage these funds in ways that lower the effective interest rate costs associated with infrastructure projects. Having business and labor as co-investors has another potential benefit. Their joint oversight could help ensure that the organizations carrying out this work adopt state-of-the-art employment practices and the high standards neces-

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3These and other estimates presented in this article account only for the direct job creation effects of increased public or private spending. They underestimate the total job creation effect since spending increases also have “indirect” job creation effects on suppliers and “induced” job creation effects from money spent by new hires. Together these effects could generate 30 to 40% additional jobs. See Pollin and Garrett-Peltier (2011) for specific estimates and methodology for calculating total job creation effects of increased spending.
sary for these to be high-quality jobs and projects that are managed efficiently and completed on time, safely, and on budget.

**Manufacturing**

Just less than 10% of the workforce is currently employed in manufacturing, down from a peak of 30% in 1960, 20% in 1980, and 14% in 2000. Concerns over this decline fall into three broad domains: 1) manufacturing jobs lost that paid medium-skill workers relatively high wages, and those displaced have neither the opportunities nor in some cases the skills needed to find replacement jobs at equivalent wages; 2) a decline in manufacturing leads not only to a loss of production capacity and knowhow but may also lead to a decline in innovative capacity as opportunities for lessons from manufacturing to influence design and engineering are lost (Pisano and Shih 2012); and 3) spillover-multiplier effects that manufacturing has on jobs in supply and distribution and related services lead to further declines in jobs, incomes, and community welfare (Autor, Dorn, and Hanson 2012).

**Recapturing Manufacturing Jobs**

Recapturing lost manufacturing jobs is difficult and requires two things. First, pressures on China to abandon manipulation of its currency would help make American manufacturing more competitive, not only with China but also with countries such as Vietnam and Malaysia that peg their currencies to China’s Yuan (Baker 2011). Second, some hard choices and changes in past practices are needed from management and employees. For employers, this requires recalculating the total costs (as opposed to the differences in labor costs) of producing abroad products sold in the United States. If, as some predict, the cost gaps close gradually as Chinese labor costs rise (Sirkin, Zinser, and Hohner 2011), the number of jobs that could be generated with this approach should increase over time. For employees (and their unions) it requires difficult negotiations over the wages and workplace practices that will govern returning jobs. Ford, General Motors, General Electric, and a number of other firms have significantly reduced their entry labor rates and renegotiated wage formulas to provide for-profit sharing or other contingent compensation arrangements, and in return made commitments to bring work back to U.S. plants. To ensure that these recaptured manufacturing jobs are both sustainable and contribute to rising incomes, management and labor need to structure them using the principles of high-performance work systems. Providing for training, internal career ladders, and productivity or other gain-sharing rules is particularly important so that the lower entry wage rates gradually rise in tandem with productivity and profitability. The business leaders that met at the Harvard Business School suggested it could be possible to bring 1 million jobs back to the United States under these conditions over the next few years.
Capturing Next-Generation Manufacturing Work

Manufacturing depends on the overall “ecosystem” in which it is embedded, that is, the existence of adequate sources of capital for risk taking and investment, good technical schools and universities to provide the medium- and high-skilled employees and professionals needed to develop and use current and next-generation technologies, local suppliers that share services and knowledge and compete openly for talent, and a predictable and sizable public and/or private sector consumer market (Kanter 2012; Pisano and Shih 2012). A study of several New England states (Massachusetts, New Hampshire, and Maine) suggested that taking an integrated “ecosystems” approach could generate 7,500 to 8,500 new high-quality jobs per year in advanced manufacturing industries that already have a strong presence in the region (Brett 2012). Matching this level of effort in 15 additional regions would generate 1 million new, high-level design, engineering, and production jobs.

Coordinating Mechanisms for Closing Skill Gaps

While, as noted above, evidence on skill shortages is debatable, expressed employer concern is sufficient to warrant those experiencing shortages to work together to address the market and institutional failures that might be causing them. By involving employers claiming to be experiencing shortages directly in the design, conduct, and funding of regional and/or industry-specific education and training programs, they can then be held accountable for hiring the workers trained in the skills they state are in short supply.

Apprenticeships and Community Colleges

Participants at the Harvard Summit agreed with the need to rebuild apprenticeship programs and suggested a target of 1 million new apprenticeships given the evidence on the high rate of return to lifetime incomes and high employer satisfaction associated with this form of training (Hollenbeck 2008; Lerman 2011). America’s community colleges are key institutional vehicles for implementing education and training programs featuring these attributes. By working closely with regional firms, some are well along the way in doing so. The White House estimates that an $8 billion increase in community colleges would generate 2 million new jobs.

Increasing Technical Proficiencies of College Graduates

Only 15% of the approximately 1.7 million 2010 graduates of four-year colleges majored in science, engineering, or math—technical skills that employers argue are in short supply (National Institute of Education Statistics 2011). At the same time universities across the country are developing new
online models for delivering courses in science, math, and engineering, and some already have advanced industry-sponsored engineering and management degree programs. Universities could be challenged to develop more graduate-level online or in-person courses that are open to current students and recent graduates with nontechnical undergraduate majors who are able and willing to now invest in these basic skills. Co-op programs, internships, and other “apprentice-like” models that are based on close university–industry partnerships could be expanded to serve this national interest and to avoid a further depreciation of the human capital of underemployed college graduates. If, as some estimates suggest, up to 40% of graduates with nontechnical BA degrees are underemployed (Sum and McLaughlin 2010), the pool of potential candidates could be as high as 750,000. If industry–university partners would sponsor and enroll 25% of these underemployed college graduates per year, and provide internships or co-op job opportunities with the chance to be hired when they complete sufficient coursework to meet entry level job requirements, 1.5 million new hires would be available for entry-level technical jobs.

Taken together these actions could generate approximately 11 million jobs, accounting for just less than two-thirds of the jobs needed to close the deficit by 2020. The remaining deficit should be closed as a by-product of normal economic growth. The Council of Economic Advisors estimates that real GDP will grow between 2.5% and 3.1% per year between 2012 and 2022 (Council of Economic Advisors 2012: 76–79). (These projections do not incorporate any growth in GDP that would come from the job-creating investments discussed above. For the purposes of this accounting exercise, these effects should not be included.) If the historical relationship between GDP growth and job creation were to hold, and the economy grows at the lower bound estimate of 2.5% per year, GDP growth would generate approximately 8.75 million additional jobs, well above the 7 million needed to close the jobs deficit by 2020. Some believe the relationship between GDP and job growth may have weakened in recent years (Gordon 2010), while others find little evidence to support this claim (Rothstein 2012). If the relationship has weakened, something closer to the 3.1% annual growth rate may be needed. Given the uncertain nature of both the growth rate and its effects on jobs, progress toward the 2020 target should be carefully monitored on an annual basis. If the economy is falling short, or the initiatives suggested above are falling short of their annualized targets, stronger actions may be required.

**Policy and Institutional Innovations**

Considerable policy and institutional innovation will be needed to sustain these initiatives and to reverse the stagnant and downward trends in job quality. The actions outlined below attempt to address the market and the institutional failures that I earlier argued are root causes of the problem.
Government

*Human Capital Investment Incentives*

Achieving the Jobs Compact targets will require broad-scale diffusion of the best-practice examples of community college–industry and labor apprenticeship programs. As suggested above this requires addressing the market failure that holds back individual firms from investing in human capital by encouraging collaboration and coordination among employers, educational institutions, and unions at regional levels at a scale sufficient to move from the best-practice apprenticeship, community college, and university co-op and online programs to have a national impact.

Federal policy not only has a role to play in supporting widespread diffusion of these local examples but also has a model on which it can build—its current *Race to the Top* funding incentives that are producing significant reforms in elementary and secondary education across the country (Boser 2012). Similar incentives and contingent funding could be offered for community colleges and other local education and training consortia of business, education, labor or other labor market intermediaries that meet the mix of critical attributes described earlier and that are tailored to the specific skills-labor market program. Indeed, there is some movement in this direction. The U.S. Commerce Department has recently funded a regional consortium of employers, educational institutions, and nonprofits to test the Administration’s proposal for a $1 billion investment in a National Network for Manufacturing Innovation. The grant specifically calls for the types of engagement and coordinated efforts demonstrated by the best-case examples reviewed above to educate, place, and provide ongoing career-related training in advanced manufacturing skills. Making all future funding of training programs contingent on demonstrating these types of linkages would be an efficient use of these funds and a strong incentive to put in place the institutional reforms needed for training programs to pay off.

Supporting Diffusion of High-Productivity–High-Wage Strategies and Practices

One of the most difficult policy and institutional challenges for promoting high-quality jobs lies in devising strategies that support broader adoption, diffusion, and institutionalization of high-productivity–high-wage business and employment strategies and practices. As noted earlier, despite research evidence that demonstrated many of these innovations paid off in higher productivity and service quality, they have not diffused widely, the innovative momentum appears to have waned, and some of the most visible examples (e.g., the Saturn Corporation) have not survived. Moreover, prior efforts to promote diffusion through government-sponsored forums, university-based executive education seminars, books, and other publications have not been powerful enough to support widespread adoption of these strategies and practices. A more systemic approach will be needed that mixes education and learning about these practices and strategies and policy initiatives that
gradually raise the floor on employment standards to narrow the gap between high- and low-road employers (Osterman and Shulman 2011).

Efforts to diffuse high-performance systems may also need to look beyond the boundaries of individual firms. The Alfred P. Sloan Foundation developed more than 20 industry-specific academic-practitioner learning networks in the 1990s that helped spread research evidence and knowledge about production systems and workplace practices that were associated with high performance in each industry (Cohen 1998). The Hitachi Foundation is now following a similar approach in working with small firms and entrepreneurs within selected industries (Hitachi Foundation 2011). Some of these consortia continue to function; others could be reactivated. Getting this material more widely and deeply embedded in business school, engineering, community college, and continuing education programs should be a high priority. Much of this research evidence is available on the Employment Policy Research Network (EPRN) website (http://www.employmentpolicy.org). Efforts to produce more user-friendly learning modules and to develop online and in-person peer learning networks focused on specific industries, regions, and/or size groupings might help support broader diffusion and application of these practices. The academic and practitioner networks created by these projects could be important resources for participants in national and regional Jobs Compact discussions.

**Leveling the Playing Field**

Diffusion of high-productivity–high-wage strategies also requires actions to upgrade the employment practices and standards of firms competing on the basis of minimizing labor costs and/or providing incentives for firms on the margin to move from the low cost to high-productivity–high-wage strategies. Some refer to this as “leveling the playing field.” A variety of carrot-and-stick policy actions that have been proposed for doing so would also help strengthen employment policies that are not working or are outdated given changes in the nature of work and workplace practices. These include increasing the minimum wage to restore its purchasing power, fixing and modernizing labor law to make it possible for workers to organize and to promote state-of-the-art labor management practices and partnerships, and modernizing employment standard enforcement strategies (Bernhardt 2012).

The stalemate over how to reform and modernize labor and employment laws and policies has now lasted more than 30 years and, given the most recent failed efforts to reform labor law by means of the Employee Free Choice Act and the intense attacks by some in Congress on the National Labor Relations Board and its members and staff, a different approach is needed to reform and modernize labor law and its administration. I believe the purpose of a 21st-century labor law and policy should be twofold: 1) to protect and support workers’ right to choose whether or not to be represented by a union; and 2) to promote and sustain positive labor management relations practices that fit with the needs of today’s economy, workforce, and
organizational innovations that have demonstrated their value in supporting high-productivity and high-wage practices and relationships. The purpose of the law should be restated to make these objectives explicit, and resources to administer, promote, and evaluate the law should be provided to the secretary of labor. This arena of public policy should be treated with the same analytical rigor as other areas of economic and social policy so that future policy changes can be better informed by data and evidence than were past labor law debates. The secretary should be authorized to engage in selected experimental and demonstration projects that go beyond current labor law to support and test alternative forms of labor management relations at the industry and/or firm level that are jointly supported by employer and labor representatives in these settings. The goal would be to build a body of evidence on alternative ways to achieve the objectives of a modernized labor policy that might someday be enacted in a new statute.

It is also time to end the bitter, too often personal, attacks (e.g., labeling members of the National Labor Relations Board “labor goons”) on the labor law agencies and professionals who administer them. No government agency can function effectively if, as has been the recent history of NLRB nominees, Congress refuses to confirm nominees to its key positions. It is time for the National Academy of Arbitrators, the labor law section of the American Bar Association, or other nonpartisan and respected professional associations to review and attest to the qualifications and integrity of nominees to these posts.

Reforming labor law in this way cannot be done as an isolated effort pursued by labor, management, or government. The case for a new labor policy has to be embedded in a broader vision and strategy for updating the full range of employment policies needed to support and sustain momentum for the Jobs Compact. Even if presented in this way, legislative reforms will be difficult to achieve. In the interim another means of laying the foundation for more fundamental reform would be for the federal government to use its purchasing power to require federal contractors to demonstrate they are taking affirmative actions to both ensure their organizations are in compliance with labor and employment laws and/or to give firms with positive high-productivity–high-wage practices priority when awarding federal contracts.

Options for reforming enforcement strategies to better use government resources and to provide incentives for workplace innovations have been proposed by many scholars. One approach would allow firms with state-of-the-art employment and dispute resolution practices greater flexibility in how to meet legal requirements while targeting traditional enforcement resources on the most egregious employment law violators (Estlund 2009). This strategy would create further incentives for firms on the margin to move in the innovative direction. A related strategy, now being tested by the Labor Department, would be to identify points of leverage in supply chains where firms can hold their suppliers and/or customers accountable for compliance with employment standards (Weil 2004). Another complementary
strategy would be to make greater use of unions, community groups, worker centers, and other local level resources to educate workers and employers about their rights and obligations (Fine 2006; Bobo 2009). This mix of incentives for firms to develop stronger voluntary compliance and dispute resolution systems and strengthened penalties for noncompliance of legal standards needs to be tested, evaluated, and, if the evidence warrants, applied across the board as a new employment enforcement regime for all employment standards.

**Mobilizing Support and Implementing a Jobs Compact and New Employment Policy**

Government leadership is essential to closing the jobs deficit and modernizing employment policies. The president needs to make the case to the public that the jobs crisis constitutes a national emergency that requires, as in past national emergencies, leadership and collaboration from all sectors and groups. The president should commit to meeting the goal of closing the jobs deficit by 2020, instruct his administration to serve as a catalyst for the institutional innovations needed to update and modernize employment policies, and challenge parties in the private sector to join in a collective effort to achieve this goal.

To implement this effort the president needs to charge a senior administration official with responsibility for bringing the key groups together to analyze and agree on the concrete steps needed to meet this objective. This would not be an unprecedented strategy. A number of past secretaries of labor played active roles in engaging private sector business, labor, and other groups in dialogue. Arthur Goldberg and Willard Wirtz led formal labor-management advisory committees during the Kennedy and Johnson Administrations; John Dunlop led a labor-management group before, during, and after he served as labor secretary during the Ford Administration; Ray Marshall created and led a tripartite (labor, employer, and government) steel industry committee in the Carter Administration; Robert Reich (together with Secretary of Commerce Ron Brown) created the Commission on the Future of Worker Management Relations during the Clinton Administration. Throughout the 1980s and part of the 1990s the department had a Division of Labor Management Relations and Cooperative Programs that held forums and commissioned research to promote diffusion of labor management partnerships and high-performance work systems.

Returning to this tradition would represent a departure from the way labor and employment policies have been handled in recent administrations and in the first Obama Administration. Policy decisions on labor and employment issues have become highly centralized in the White House leaving the Labor Department to carry out a more limited role as the chief enforcement agency for employment laws and regulations. The department’s analytical capacity and ability to propose or evaluate new policies have been severely diminished. The secretary has not been given the
responsibility of leading this analytical process or for building the broad-based labor, business, education, and community constituencies in the types of dialogue needed to build support for new approaches to labor and employment policies. Thus a major transformation in the role of the Department of Labor and the secretary will be needed to lead, mobilize key stakeholder groups, provide incentives, and evaluate efforts to implement a Jobs Compact and related employment policy initiatives. The Employment Policy Research Network, a consortium of academic researchers, was formed in 2010 and is in place to help serve this function.

While this more proactive-outreach tradition needs to be renewed, it also needs to be updated to reflect the greater diversity found in today’s labor force and employer communities. Outreach to labor and employer leaders needs to be extended to include leaders from other constituent groups (e.g., women and minority groups, community groups, labor market intermediaries, educators) that are playing important roles in labor markets today. These types of multi-stakeholder groups will need to be assembled and facilitated at both the national and regional levels of the economy. The regional groups are critical to provide the coordination and mutual efforts needed to overcome the market failure problem noted earlier. The national level forums are needed to provide oversight, policy input and guidance, and to build broad-based support and to give visibility to the Jobs Compact and employment policy renewal/updating efforts.

Business Organizations and the Business Community

Leadership and engagement among businesses and with other groups at regional and national levels are essential to the success of a Jobs Compact. As noted earlier many individual firms, including some of the largest in the nation, invest heavily in training and development and related high-performance work practices. To overcome the market failures described earlier and to diffuse these practices and rebuild regional and industry education and training programs as called for here will require collective business leadership and engagement. This has been sorely absent in recent years at a national level and, although systematic data are not available, appears to be occurring in only a limited number of regions. The discussion of business leaders attending the Harvard Competitiveness Summit suggests there is growing awareness and perhaps an increased willingness to begin working together on these issues. The question is how to act on and sustain this interest. The President’s Jobs and Competitiveness Council, if extended to regional levels with broader representation of workforce and education leaders, could be a vehicle for building on this expression of interest. Those employers experiencing the greatest shortage of skilled workers, or that project future shortages based on expected retirements and changing skill requirements, have a special shared interest in working together. If they do so, the critics of the skill shortage claims would be quieted. If they do not, the critics will be proven right.
Labor Unions and Professional Associations

The labor movement also needs to change if it is to be a significant contributor to a long-term Jobs Compact. Union leaders need to articulate a positive vision and strategy for their role in society and for how a rebuilt and innovative labor movement can help build and supply the labor force as well as the employment conditions needed to close the jobs deficit and to get wages and other conditions of work moving in a positive direction. Rebuilding unions in the mirror image of past, declining organizations, or trying to resuscitate collective bargaining in the way it was practiced during the era of the postwar social contract, will not work. Unions and collective bargaining functioned well for advancing the living standards of workers (union and nonunion alike) because they were well matched to the features of the labor and product markets of that era. The same matching principle needs to be followed now. Today, the key lies in meeting the needs of a knowledge-based workforce and economy and to serve as a driving force and champion for innovation. Like their corporate counterparts, unions need to learn from the examples of cases in which unions played this role in the past or are currently playing this role in various industries. Joint union–management apprenticeship and training programs are a classic, long-standing example. So too are the labor–management partnerships such as those that unions helped to create in various industries over the past several decades. The 21st-century labor organization needs to view knowledge, skills, and its demonstrated ability to drive and sustain innovation as its key sources of power (Kochan 2005). Labor unions also need to work in coalition with the growing array of worker centers, immigrant groups, and other community-based organizations that advocate for improving low-wage jobs. Experimentation with ways of representing workers outside the constraints of the National Labor Relations Act would help to test new models of representation and voice that might some day be included in a more comprehensive reform of labor and employment law.

Professional associations have critical roles to play in overcoming the market failures that hold individual firms back from investing to keep their employees’ human capital up to date. By establishing professional standards and certifications, providing ongoing education and training programs, sharing information on changes in technologies and skill requirements, and serving as a clearinghouse for job openings, professional associations can serve as “one-stop” career centers for their members. Some already do this but even those that do experience low levels of participation among their members. Moreover, anecdotal evidence suggests that only a fraction of employees currently take advantage of tuition reimbursement programs offered by their employers. Professional associations need to raise the bar on both the norms regarding continuous education and the standards for maintaining certification and membership in their professions and occupational associations.
Education

Finally, America’s universities need to become more accessible to adults who need or want to refresh their skills through life-long learning. Open access would also support smoother transfer of ideas and scientific, technical breakthroughs to industry and to next-generation entrepreneurs. New business models will be needed to finance open access university education and new career models will need to be created for faculty who do research, teach on campus, and deliver open access education. Developing courses, certificate programs, and new degrees to encourage underemployed college graduates to obtain the engineering and/or other relevant technical training/education would be a good starting point for experimenting with a new model of higher education.

Business schools have a special obligation and key role to play in educating current and future managers, entrepreneurs, and business leaders about strategies and management practices needed to build and sustain high-productivity–high-wage organizations, industries, and the economy. Just as in corporations, finance has ascended in power in business schools and the view of the corporation as a shareholder-maximizing institution dominates both the teaching and the culture of most leading business schools, which have moved away from including courses such as human resource management and labor relations.

If few MBA graduates are exposed to strategies for valuing and gaining strategic advantage through human capital in organizations and the economy, it is not surprising that these issues have little influence in American management practice or strategy. To do their part in responding to the jobs crisis, business school faculty need to embed theory, research, and values regarding strategies that can achieve positive performance outcomes for all stakeholders, including shareholders, across the curriculum and to put MBA students and other future entrepreneurs and managers in direct contact with real workers and managers facing real problems to solve. The same is true for middle managers, rising executives, and technical specialists who aspire to create their own spin-offs and/or start-ups. Programs that bring these future management leaders into executive education programs with rising labor leaders would both broaden their thinking about ways to address shared problems and help build the negotiations and problem-solving skills needed to implement solutions in their organizations. Business school leaders can also play important roles in convening and facilitating Job Compact discussions among business, labor, and community leaders in their region.

Moving Forward

Although no single, magical solution to the immediate jobs crisis or to the longer-term problems with American employment policy is available, I
believe that the actions outlined here, if taken together, could address the root causes of these problems and accelerate the creation of sufficient high-quality jobs needed to close the jobs deficit by the end of this decade. The elements in the strategy seek to elevate discussion of solutions from the individual enterprise to the business community; reengage discussion of options among business, labor, education, community, and government leaders; focus on long-term reforms of policies and institutions; and foster diffusion strategies to make high-productivity, high-wage practices the new norm and accepted standard.

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